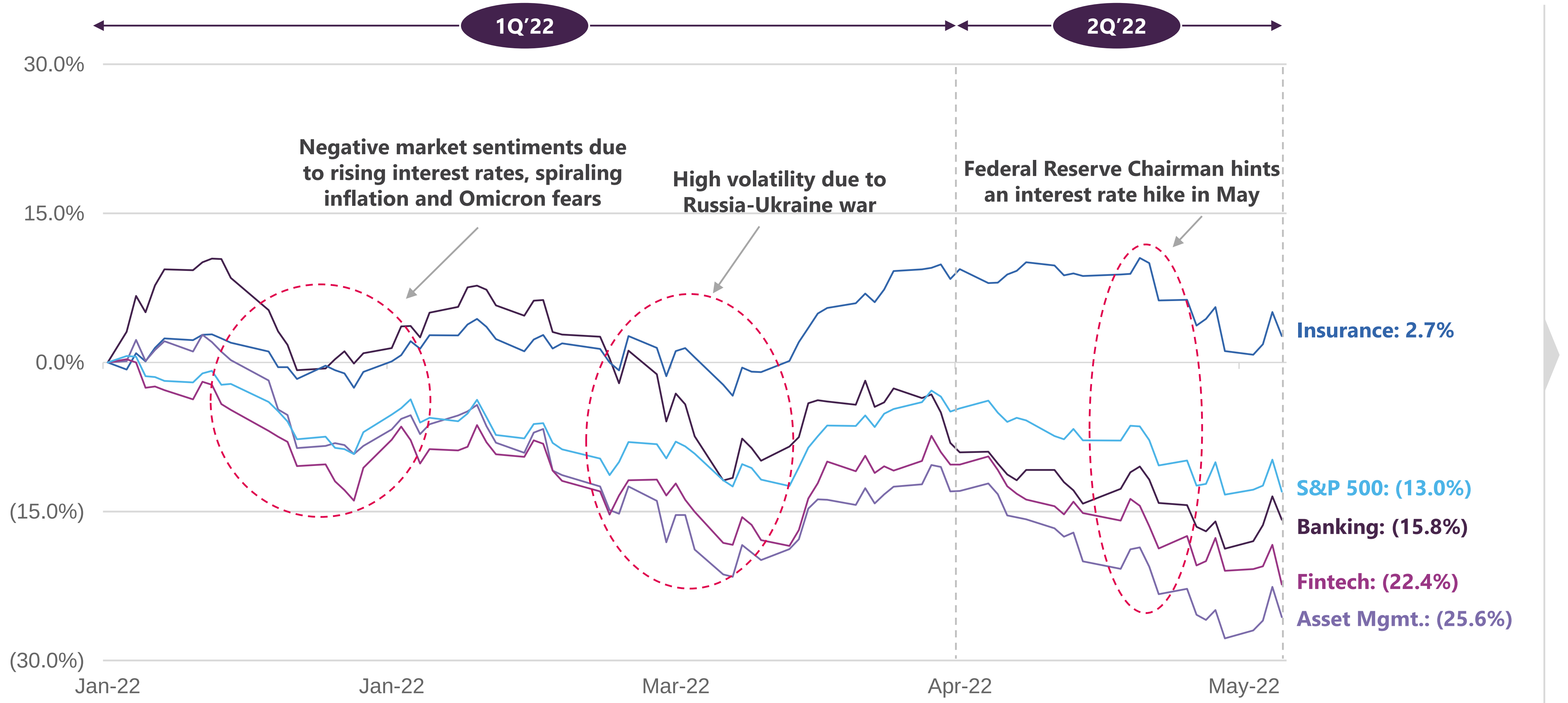
EVALUESERVE

M&A and Capital Markets Activity in Financial Services Industry

Q1’22 Review

Shockwaves from the Ukraine Crisis and tightening of financial conditions have tested the Financial System's resilience…



Source: Industry Reports and General Web Searches. Share price represents the US market data, which is as of May 5, 2022. Figures in US$.

..with only the Insurance sector garnering investors’ demand aided by the rising interest rates and a ‘sticky’ inflation

Insurance stocks outperformed the broader market and other sub-sectors aided by rising rates which boosts the cash that insurers take in

The **asset management** stocks have heavily underperformed driven by the broader market selloff and dampening macroeconomic outlook with heightened volatility.

The **S&P 500** has witnessed a self-off driven by concerns about inflation and interest rates and their potential impact on the economy

Banking stocks relatively performed better primarily aided by rising interest rates with concerns regarding slowing loan growth capping upside in recent months

Fintech stocks underperformed S&P 500 majorly due to mixed quarterly reports and investors rotating out of technology and high-growth names into cyclical stocks

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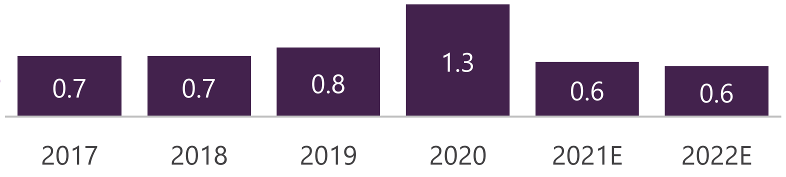
Banks have been 'distressed' due to weak loan portfolios, margin pressure and macro headwinds however…

Spotlight on Geopolitical Tension and Inflation

- With the gradual recovery of the economy, banks have been releasing billions from their 'fortress' reserves with current provisions for losses reaching pre-pandemic levels

Global Provisions for Loan Losses (US$ trillion)



- However, the advent of the Ukraine crisis in February drastically changed the business landscape. Banks are now making provisions relative to their exposure in Russia.
- Goldman Sachs had a gross exposure of around USD1 billion in Russia, while the exposure for Citigroup was around USD10 billion. Together, these two banks accounted for ~75% of US banks' exposure to Russia.
  - Goldman Sachs had announced its exit from Russia.
- The sharp rise in commodity prices has aggravated the existing inflationary pressure
- Globally, central banks have embarked on an urgent tightening cycle to combat the prospects of 'stagflation' thereby signaling the market that they are more concerned about inflation than stalling growth

Trading Revenue: Acting as a Bailout

- Policy makers injected massive amounts of cash into capital markets. With investors looking actively for opportunities, this led to unprecedented liquidity and trading activity throughout the pandemic.
- Trading activities were expected to 'normalise' in 2022 as market volatility subsided post COVID-19.
- Concerns related to Omicron, lockdowns in China, geo-political tensions and 'sticky' inflationary expectations have made investors more cautious.
- In 1Q'22, heightened volatility substantially increased brokerage revenue from commodities, currencies and fixed rates.
- Trading activity is expected to remain high for the remainder of the year. Clients are likely to stay engaged as the dispersion of potential macro-outcomes remains high.
- Higher trading revenue and fee-based businesses have aided a pronounced rebound in non-interest income. This may lead to overall growth in revenue streams for banks during the year

Source: Industry Reports and General Web Searches. Figures in US$.

...it remains on track to reach pre-COVID-19 profitability aided by the prospects of economic recovery and interest rate hikes

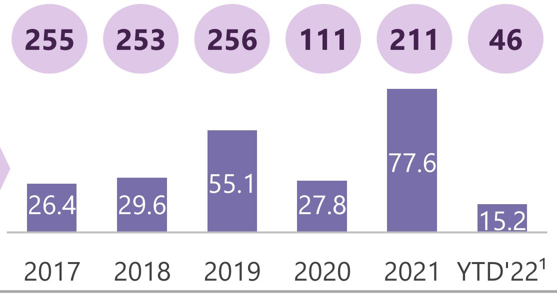
Business Outlook

- Inflationary pressure is expected to drive interest rates higher. As a result, investors will likely shift their focus on prospects for banks to increase their net interest income.
- However, investors have also voiced concerns about a probable recession that may lead to higher defaults.
- Rising interest rates may help some lenders cash in on hedges taken to offset bond market falls. They are, however, also forcing banks to tighten their affordability checks, with many customers set to struggle with repayments on loans, credit cards and mortgages
- Big tech businesses such as Google, Amazon and Apple are expected to gradually include financial services solutions in their portfolios. As a result, banks may witness a loss of revenue and market share.
- Digital platforms are expected to become the preferred and dominant business channels for the banking industry, according to KPMG.
- Advisory firms are expected to expand their capabilities and increase dialogue with clients. This will help them to better service big and middle-market sponsors, given the availability of substantial dry powder.
- Inflation is acting as a double-edged sword and geo-political uncertainties are impacting transformative decision making. This may make the remainder of 2022 quite challenging for the sector.

M&A Outlook

- Even though M&A activity was muted in 1Q'22, it is expected to rebound in the near term. However, the recovery levels will not be as much as last year.
- To counteract margin compression, there is a growing focus on increasing scale and efficiency to support profitability and streamline business models
- Disruptors such as fintech platforms, a tighter regulatory environment and the need to support green transition are creating pressure and driving the sector towards rapid transformation.
- Regulators have started to question the rationale of building local banking champions, as this could dampen the announcement of megadeals in 2022
- According to S&P Intelligence, US banks will likely undertake M&A worth ~USD60 billion in 2022

Count and Value of US Banks' M&A Deals (in US$bn)



Source: Industry Reports and General Web Searches. Figures in US$. 4Q'21 data is as of December 31, 2021.
1 As of April 13, 2022

While the asset management and insurance sectors are on path to recovery, fintech witnessed a recalibration of expectations

Asset Management

- Rising interest rates and the Russia-Ukraine war are compelling asset managers to rebalance their portfolios and increase their exposure to government bonds and safe-haven assets such as gold.
- Traditional active managers are expected to collaborate to scale up to fund new capabilities (such as ESG) and boost distribution.
- Private equity investments are set to continue for the remainder of 2022, as the sector remains attractive over the long term.
- A total of 40 asset management deals took place in 1Q'22 (as per Refinitiv).
- The outlook for deal-making remains strong in 2022, driven by consolidation, focus on gaining credit, exposure to other asset classes and robo advisory.
- Given the high competition in recent bidding processes, we expect deal pricing to remain robust in 2022.

Insurance

- The ongoing demand for digitalisation (insurtech) and the divestment of non-core assets should continue to drive M&A.
- Sponsors, especially publicly-traded groups, are acquiring blocks of businesses and partnering or merging with insurance companies. The aim is to act as a source of permanent capital, specifically in the life insurance and annuity sectors.
- US-based buyers continued to make acquisitions in Europe to expand their footprint in the niche and undertapped insurance markets.
- As per S&P Global,
  - 161 insurance brokerage deals were announced during 1Q'22, compared with 207 for the same quarter last year
  - 30 transactions (involving underwriters) with an aggregate value of USD12.1 billion were announced in 1Q'22
  - Berkshire Hathaway's acquisition of Alleghany for USD11.5 billion was the largest deal announced in 1Q'22

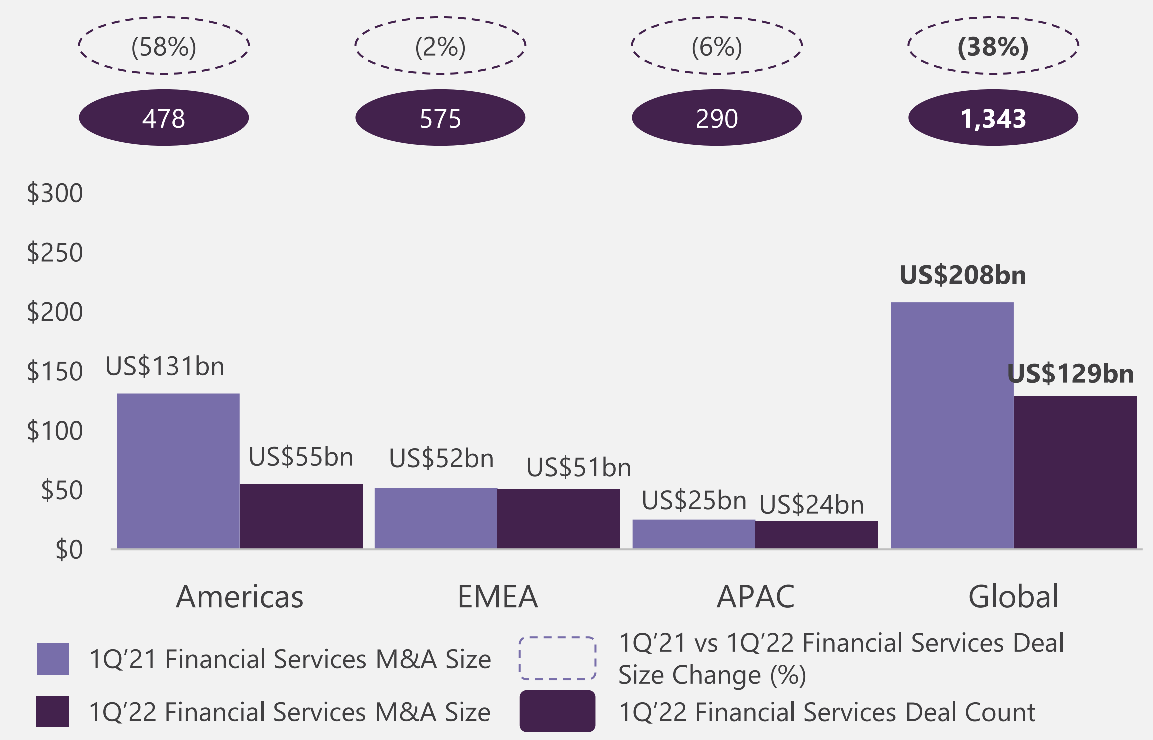
Fintech

- A benefited fintech firms that have partnered with traditional financial institutions to expand into new markets.
- However, the sector's valuations have deflated after a recent correction. We may witness a mass cleanse of start-ups in an overheated market post COVID-19.
- In 1Q'22, funding dipped by 18%, the largest since 2018 (CB Insights).
- The total M&A deal count was 253 in 1Q'22, compared with 270 for the same quarter last year.
- The largest deals announced during 1Q'22 were Apollo Funds' US$2.6 billion acquisition of Worldline's TSS business and Coinbase's US$2.2 billion acquisition of 2TM (cancelled)
- SPAC IPOs declined in 1Q'22, mirroring the broader market amid high volatility.
  - Forge Global and Coincheck were the largest de-SPAC deals in 1Q'22

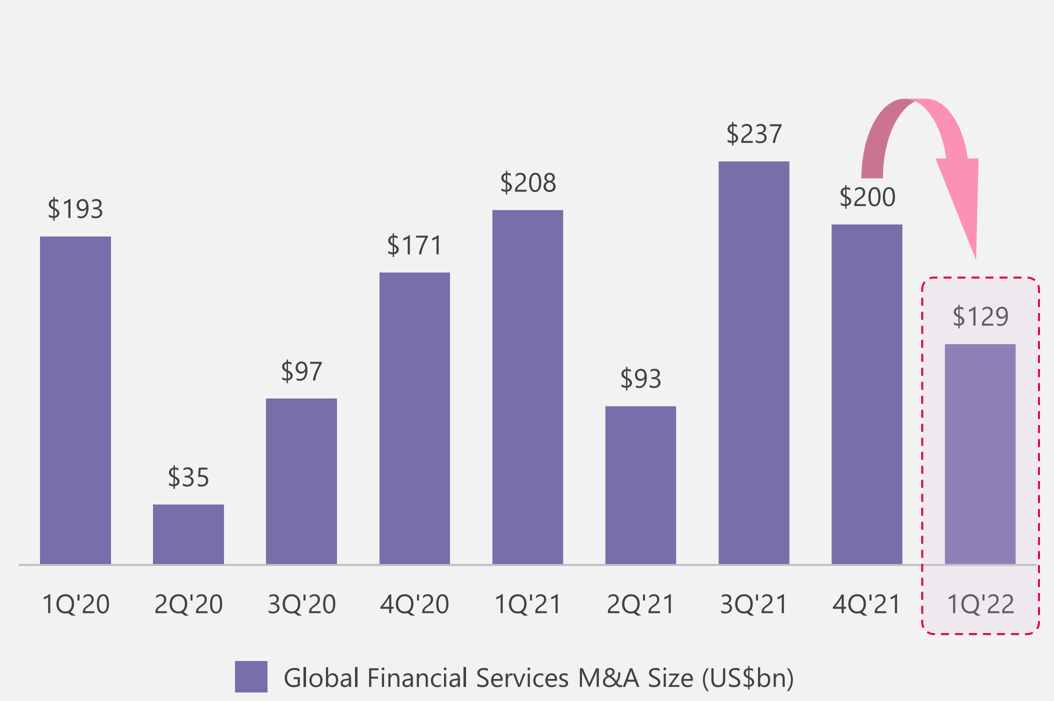
Source: Industry Reports and General Web Searches.

Global M&A activity saw a pronounced downturn in 1Q'22…

- The Americas experienced significant drop in M&A volumes due to dearth of 'big ticket' deals, while EMEA and APAC regions witnessed a more 'resilient' volumes during the start of the year
- The acquisition by Toronto-Dominion Bank of First Horizon Corp. for $13.4B was the largest deal announced in 2022 during 1Q'22



- Looking at the quarterly trends the first quarter saw a steep decline in the overall M&A activity across the sector
- Rising interest rates, inflationary pressure and Ukraine crisis made investors adopt a more cautious approach
- Deal count and size increased and decreased respectively



Source: Refinitiv. Figures in US$bn. Data as of March 31, 2022.

...with a limited number of high-profile deals across sub-sectors, most of which were driven by the availability of PE[2] dry powder

Key Themes Driving M&A

- Diversified revenue streams
- Innovative solutions
- Shareholder value generation
- Digital one-stop-shop
- Efficient ownership structure
- Strong regional partnerships
- Fintech Wave
- Resilient cash flow

Top 'Big Ticket' M&A Announced in 1Q'22

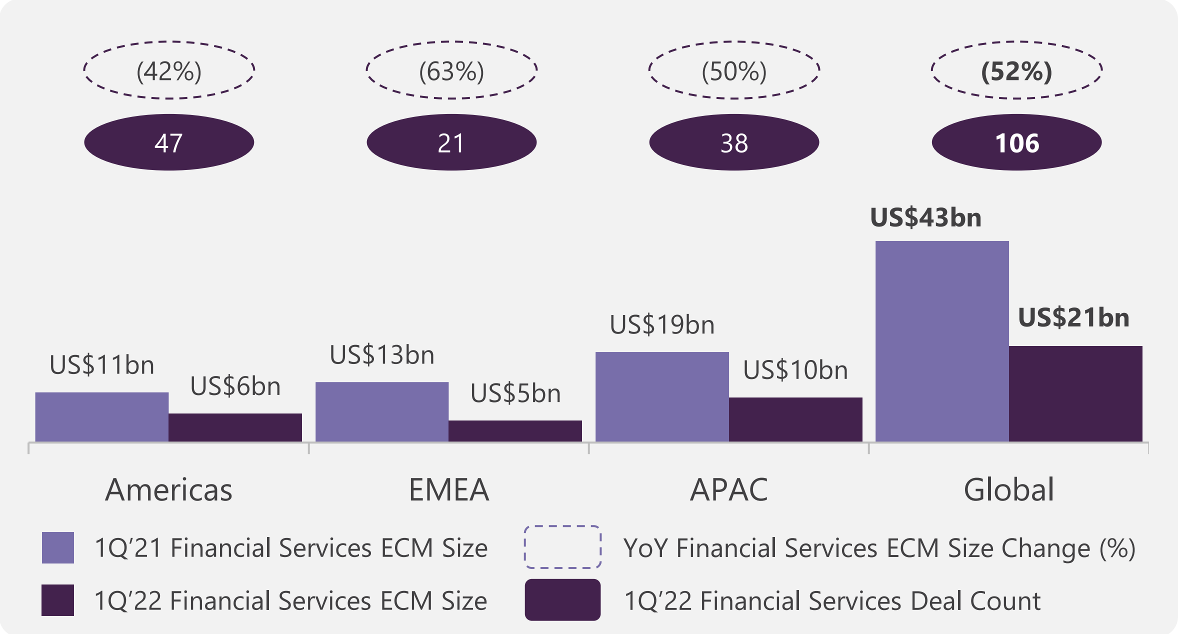
Ann. Date	Acquirer	Target	Target's Sector	Deal Value (US$bn)	Advisors
28-Feb-22	Toronto-Dominion Bank	First Horizon	Banking	$13.5	TD Securities, JP Morgan, Morgan Stanley
21-Mar-22	Berkshire Hathaway	Alleghany	Insurance	$11.5	Goldman Sachs
16-Mar-22	EQT	Baring Private Equity	Asset Management	$7.5	Goldman Sachs, JP Morgan, Morgan Stanley
06-Jan-22	ALD	LeasePlan	Leasing	$5.5	UBS, Citi, JP Morgan, Goldman Sachs, Rothschild, Societe Generale
17-Feb-22	Ares Management	Capital Automotive	Speciality Finance	$3.8	Barclays, PJT Partners, Goldman Sachs
13-Jan-22	United Overseas Bank	Citi Group	Banking	$3.7	Credit Suisse, Capital Markets, Advisory Group Eq
23-Feb-22	Rede D'Or Sao	Sul America	Insurance	$3.1	Banco BTG Pactual, Vinci Partners
21-Feb-22[1]	Apollo Funds	Worldline (TSS business)	FinTech	$2.6	HSBC, BNP Paribas, Barclays, BoFA, Societe Generale, UBS
17-Mar-22	KKR	Mitsubishi-UBS Realty	Asset Management	$1.9	SMBC Nikko Securities, UBS
31-Mar-22	RBC Wealth Management	Brewin Dolphin	Asset Management	$1.9	RBC Capital Markets, Liberum Capital, Lazard & Co, Barclays

Source: Company Press Releases. Data as of March 31, 2022. Figures in US$bn, unless otherwise noted; excludes cancelled deals
Note: (1) Entered into exclusive talks. (2) PE=Private Equity

Companies rushed to the bond markets to lock in cheap interest rates while the Equity Capital Market faced severe headwinds

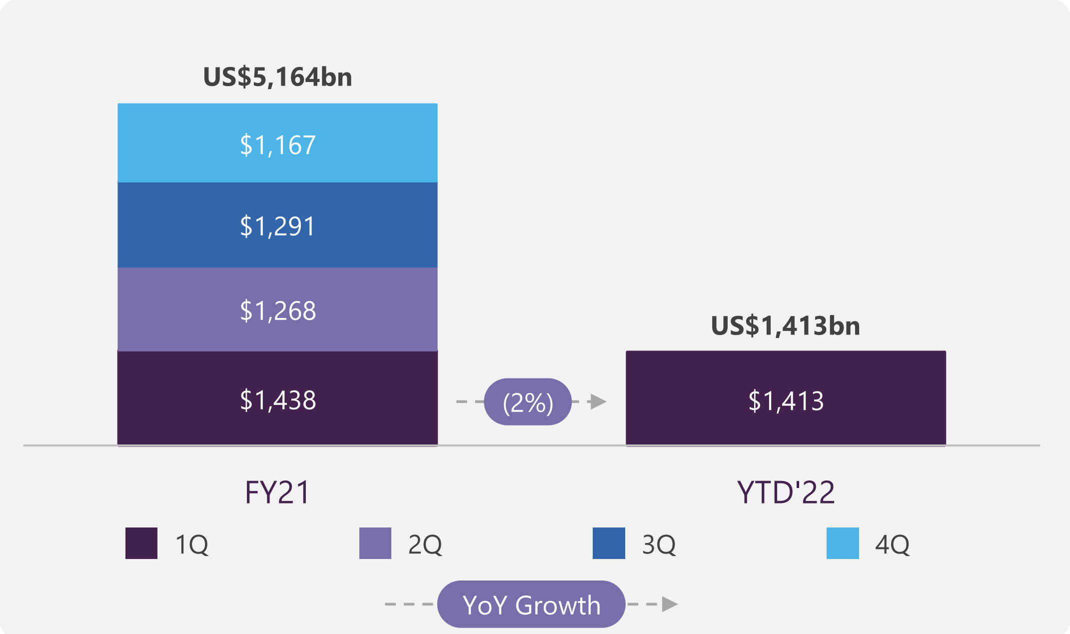
Global Financial Services ECM

- On a YoY basis, ECM activity across all regions fell back to the pre-pandemic levels amid high market volatility, weak aftermarket performance and lack of investor demand
- Quarterly global IPO volumes fell to its lowest level since COVID-19 (1Q'20)
- SPAC IPOs came to a halt with heightened scrutiny from regulatory authorities



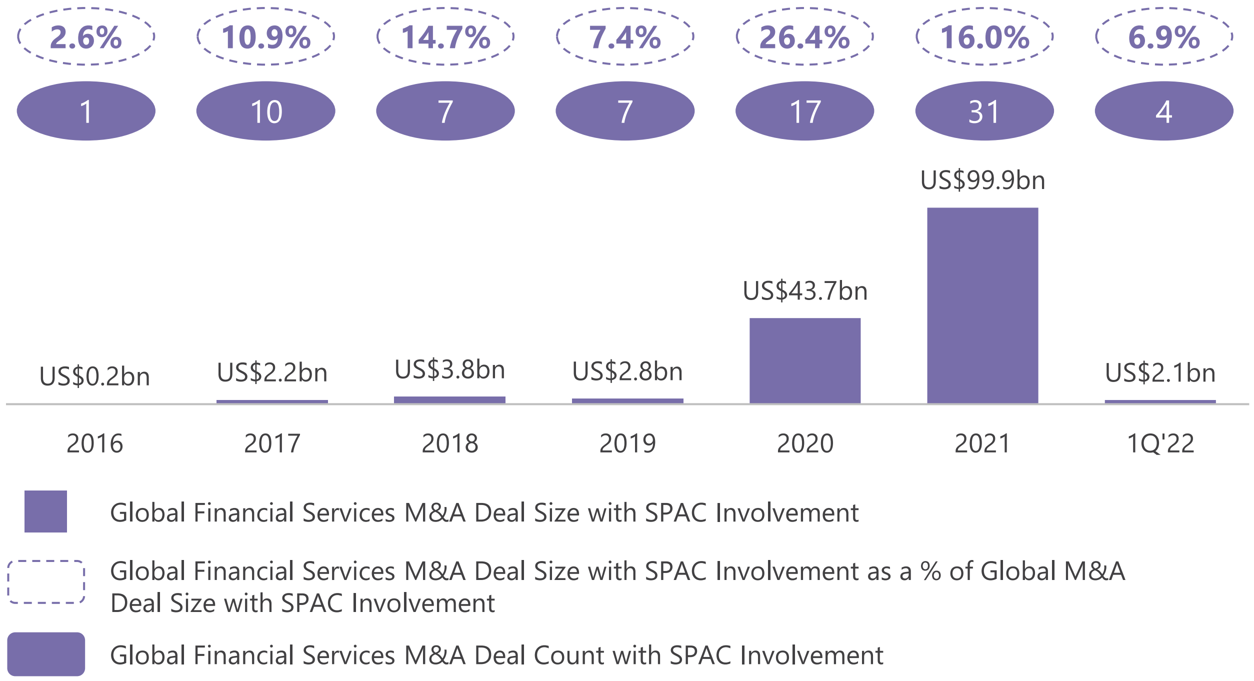
Global Financials Services DCM & Syndicate Loans

- DCM issuances increased as companies raced to the bond markets, even during Ukraine crisis, as they tried to lock-in the low interest rates before the potential rate hikes globally
- Issuances of syndicated loans declined due to geo-political crisis, with investors pausing to review their portfolios and the related risks



Source: Refinitiv. YTD as of April 07, 2022. Figures in US$bn; ECM=Equity Capital Market, DCM=Debt Capital Market

As the 'merger clock' ticks down and the viable target universe shrinks, de-SPAC deals are expected to become more competitive



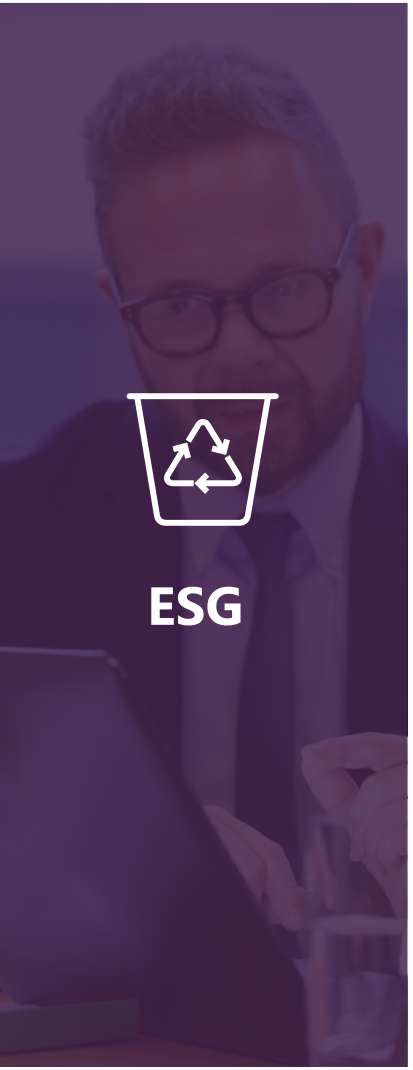
- The large volume of SPAC IPOs over the past two years should continue to drive de-SPAC activity in 2022
- In the US, which holds the lion's share of SPAC activity to-date, proposed regulatory changes by the Securities Exchange Commission (SEC) has depressed market sentiment, with more than half of deal makers expecting a decline in the number of new SPAC IPOs going forward in 2022
  - The new rules require additional disclosures regarding business combination transactions between SPACs and private operating companies, including disclosures relating to the fairness of these transactions
- Examples of a few announced SPAC deals in YTD 2022 are as follows:
  - Thunder Bridge Capital Partners IV acquired Coincheck Group for US$1.3bn
  - Northern Lights Acquisition Corp. acquired SHF LLC for US$185mm

Outlook

- ✓ Fintech continues to be SPACs' magnet though deal activity has slowed down drastically due to recent underperformance
- × In 2022, we can expect to see a much more 'normalized' de-SPAC volumes due to a lack of feasible targets
- × The unfavourable regulatory environment and weak PIPE market due to geo-political tensions have diminished the attractiveness of SPACs, compared with traditional IPOs
- × Mixed post-deal performance, rise in the number of redemptions during De-SPACs and higher private securities plaintiffs and short-selling activity has resulted in growing investors' doubts about SPACs' ability to deliver high-quality companies

Source: Eikon Refinitv. Figures in US$bn. Data as of 1Q'22 ending March 31, 2022.

ESG is key to long-term and sustainable value generation



Key Market Trends and Developments

- The ESG investment market continues to grow rapidly. Stakeholders at all levels recognise both the social value and the opportunity around sustainability.
- Banks are strategically deploying fintech ecosystems to drive sustainability in their products and operations. This is referred to as Sustainable Digital Finance.
- A number of banks have joined the UN-convened Net-Zero Banking Alliance. Under this, they have committed to align their lending and investment portfolios with net-zero emissions by 2050.
- Large institutional asset managers, such as BlackRock and State Street, have made ESG performance their key criterion for investment.

Deal Makers Have Embraced ESG[1]

78%

Incorporate ESG metrics in target valuations and risk assessments

73%

Re-evaluated portfolios to acquire or divest through the lens of ESG

70%

Consider ESG a challenge in their respective organization

Impact on Deal Activity

- During due diligence, deal makers are focussing on a company's ESG profile to understand its prospects of creating crisis-resilient long-term value.
- External rating agencies are including ESG criteria for their rating. As a result, banks are now strictly adhering to 'soft' sustainability criteria.
- Additionally, legal provisions or authorities' expectations obligate banks to screen their assets, disclose the green asset ratio and include ESG aspects in their credit-approval processes.
- From a funding standpoint, the cost of capital for companies with better ESG scores is lower than for companies with weaker scores.
  - For instance, there is higher investor demand and better pricing for issuers for many green, social or sustainable bonds in comparison to traditional non-ESG issuances
- Shareholders are considering ESG improvements as an important criterion when targeting companies.
- For insurers, the failure to take ESG factors into account may significantly impair their ability to derive profits on policies and investments.

Source: Industry Reports and General Web Searches
Note: (1) Based on Deloitte's M&A 2022 Trends Survey report (Financial Services respondents)

As the geo-political and inflationary headwinds start to settle, the deal activity across sub-sectors is expected to ramp up

Key Factors Influencing M&A, ECM and DCM Activities in 2022

Economic Upheaval

- ✓ Pressure on organic growth and capital appreciation, as well as lower valuations to act as currencies for M&A
- ✓ The importance of ESG factors in M&A decision-making is increasing, especially in the backdrop of the COVID-19 pandemic
- ✗ Overall, geo-political and inflationary headwinds have significantly increased economic risks, making policy tradeoffs even more challenging for the central banks
- ✗ Cross-border deals are expected to remain muted in the near-term as corporates to re-evaluate their expansion plans

Regulatory Environment

- ✓ The global regulatory and tax conditions have been favourable though authorities might enhance scrutiny for megadeals
- ✗ Increased due diligence will likely slow down the execution process, e.g., work-from-home compliance, cybersecurity, privacy, data protection and accounting regulations

Technological Changes

- ✓ Digital transformation is necessary for fraud management, cybersecurity and digital client servicing. M&A remains the quickest way to build these capabilities.
- ✓ Technology to remain at the forefront of corporate strategies to build market position especially in the current Fintech wave.

Sector Dynamics

- ✓ Partnerships can promote better efficiency ratios, technological transformation, treasury operations and cross-selling
- ✓ Rise of domestic champions, challenger bank M&A, focus on deleveraging balance sheets and reconfiguration of operating models
- ✓ Increased regulatory and digital transformation costs and thin margins are driving consolidation in the market
- ✗ Difficulty in ascertaining the right M&A targets amid uncertainties around the economy and consumer behaviour

Financial Market Support

- ✓ The credit market is expected to remain active though funding levels are expected to be more normalized vs 2021
- ✓ Private equity firms to continue to deploy their dry powder in life insurance and annuities and payments sub-sectors
- ✗ Higher interest rates, recalibration of expectations of SPACs and mixed after-market performances might dampen demand

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